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Product Brief

Korean Coffee Market

2004

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Report Highlights:

The total value of coffee imports in 2003 was \$93 million, a twenty percent increase over the previous year. The United States has a sizeable market share of roasted coffee bean imports and a growing share of instant coffee imports.

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SECTION I. MARKET OVERVIEW

The Korean coffee market is estimated at close to \$1 billion in 2003, with instant coffee representing 95 percent of total sales and roasted coffee taking the remaining share.

Table 1. Coffee Sales by Type: 2000-2002
(\$ Million)

	2000	2001	2002
Instant Coffee	\$260	\$227	\$210
Coffee Mix	\$200	\$214	\$275
Canned Coffee	\$150	\$171	\$213
Roasted/Ground Coffee	\$41	\$36	\$35
Total	\$651	\$648	\$733

Source: Nielsen Data: Food Distribution Yearbook, 2003

Korea imported \$93 million of coffee in 2003, including unroasted and roasted beans and instant coffee. Unroasted coffee beans, representing 76 percent total import value, were imported mainly from Vietnam, Honduras, Columbia and Brazil. Roasted coffee bean imports, valued at \$7.1 million in 2003, declined four percent from 2002, but otherwise have showed fairly steady growth. The U.S. holds a 61 percent market share of total roasted coffee bean imports. Despite the decline in total imports, the U.S. market share increased two percent over 2002. Italy and other EU countries are the major competitors.

Table 2. Coffee Imports by Type: 2000-2003
(\$ Million)

	2000	2001	2002	2003
Unroasted Coffee	\$108.0	\$66.0	\$64.0	\$71.0
Roasted Coffee	\$4.7	\$6.1	\$7.4	\$7.1
Instant Coffee	\$5.8	\$6.5	\$6.3	\$15.0
Total	\$118.5	\$78.6	\$77.7	\$93.1

Source: Korean Trade Information Service (KOTIS), Korean Customs Office

Instant coffee imports grew significantly in 2003 to \$15 million, an increase of 138 percent from the previous year as the economic slowdown shifted consumer preferences. Convenient and less expensive instant coffee, as a result, is getting more popular than the higher priced fresh bean coffee. The U.S. market share, at 27 percent for 2003, is also growing. Japan, the second largest exporter, had a 19 percent market share. Other competitors include China, Brazil and Egypt.

Table 3. Advantages and Challenges

Advantages	Challenges
Korean coffee market depends entirely on imports	Importers and consumers are unaware of the coffee varieties available from the U.S.
The U.S. enjoys a good reputation for high quality coffee	In general, consumers tend to drink the least expensive instant coffee
Coffee is a popular and established beverage	Fresh coffee beans are not popular

Low tariffs and exemption from the special excise tax

In terms of health consciousness, coffee has a negative connotation

1/ see Tariff Rates Section below

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

Retail Food Sector

Koreans tend to prefer instant coffee at home for its convenience and, as a result, 90 percent of coffee purchased in retail outlets is instant. Retail sales of instant coffee reached 616.2 billion Korean Won (US\$531 million) in 2003, an increase of 11 percent from the previous year and an increase of 20 percent from 2001. Maxim and Taster's Choice are the two leading brands sold in grocery stores, hypermarkets, department stores and roadside retail outlets. In addition, a new individually wrapped "stick type" instant coffee product, called "3-in-1 instant coffee mix", has become increasingly popular. The product contains instant coffee, sugar and creamer all in one package.

To meet the South Koreans' particular tastes and desire for variety, manufacturers are constantly renewing their instant coffee products, as well as their instant coffee mix products, by adding new flavors to their existing lines. In 2003 Nestlé, for example, introduced Nescafé Gold Mocha Instant Coffee Mix, which is now popular among younger coffee drinkers. Overall, instant coffee sales grew 12 percent in 2003.

Decaffeinated coffee is not very popular in Korea. In a survey done by Taster's Choice, less than 10 percent of polled coffee drinkers stated a preference for decaffeinated coffee. Although interest in health is high, few people drink decaffeinated coffee, preferring instead to switch to green tea. This is attributable to limited promotion and advertising of the benefits of decaffeinated drinks. It is not surprising, therefore, that only a few decaffeinated brands are available locally.

The coffee industry in Korea has a relatively short history. Korea did not manufacture or legally import coffee beans until 1968 when the government gave a coffee-manufacturing license to Dongsuh Foods Co., Ltd. From 1970 until 1989, when Nestlé Korea was established, Dongsuh had monopolized local coffee production with its Maxwell House brand (manufactured under a license from Philip Morris Co., Inc.).

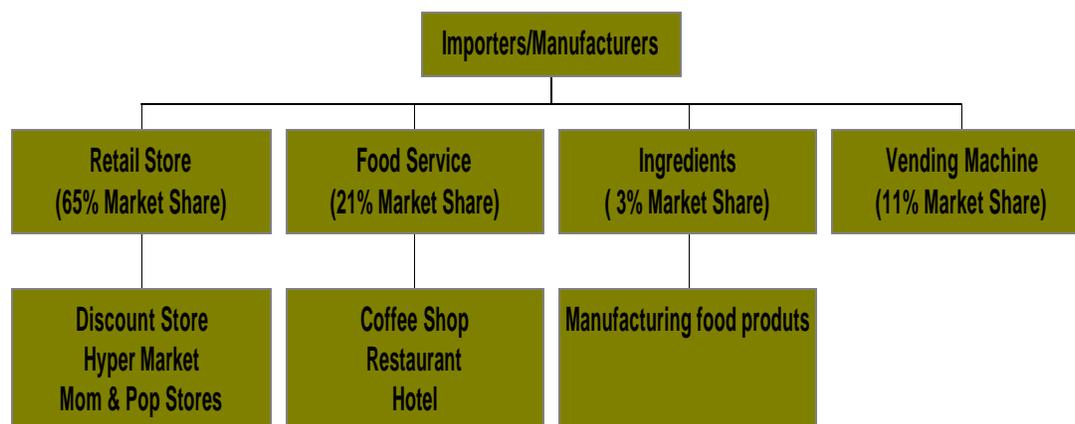
Table 4. Share of Retail Sales by Brand: 2000-2002

Company	Brand	2001	2002	2002
Dongsuh Foods	Maxim	44.5	46.9	47.2
Nestle Korea	Taster's Choice	17.8	15.4	15.3
Dongsuh Foods	Maxwell House	10.2	10.2	10.9
Nestle Korea	Nescafe	7.5	8.6	8.7
Daesang Group	Daesang	2.4	2.2	1.9
Lotte Shopping	Lotte	1.8	1.8	1.7
Sara Lee	Hills Brothers	0.8	0.7	0.7
Others		15.1	14.1	13.6
Total		100.0	100.0	100.0

Source: Euromonitor: Hot Drinks, April 2004

The companies with the largest share of the retail market are still Dongsuh and Nestlé. In addition to these two major coffee players, there are other smaller participants, such as Daesang Group and Lotte Shopping Co., Ltd. The smaller firms' lack of proper coffee processing facilities and relatively low level of investment in advertising inhibit their competitive situation, vis-à-vis, Dongsuh and Nestlé.

The distribution infrastructure in South Korea for coffee is as follows:



Vending Machine Sales

Sales through vending machines reached 284 billion Korean Won (US\$244 million) in 2002. Vending machines are still popular in Korea, although this outlet may not offer future opportunities as Koreans are becoming increasingly concerned with food safety issues. The dynamic growth of specialty coffee outlets also impact vending machine sales.

HRI Food Service Sector

Coffee specialty shops have grown significantly in the last few years, with Seattle-based Starbucks leading the pack. Starbucks Korea, co-owned by Starbucks Corp. and Shinsegae (a major local department store), has nearly doubled in business volume every year since its foundation in July 1999. The Korean operation focuses on attaching luxurious images to the beverages it sells and firmly establishing the take-out coffee trend. Starbucks Korea is now the largest industry player with a 40 percent market share generating 44 billion Korean Won (US\$37.9 million) annually. Other U.S. chains have since successfully entered the market, such as Diedrich Roasters, Coffee Bean & Tea Leaf, and Seattle's Best Coffee. Local chains, including Rosebud, Whoever, Holly's Coffee, are also doing well.

Table 5. Number of Franchise Coffee Chains by Brand: 2001-2003

Company	Brand	2001	2002	2003
Doosan	Café Nescafe	25	28	80
Starbucks	Starbucks	24	34	80
Coffeebean	Coffeebean & Tealeaf	6	6	25
Seattle's Best	Seattle's Best	3	5	11
UCC	Craytons	1	1	10
Daesang	Rosebud	77	140	240
Harley's Korea	Harley's Coffee	12	27	62

Source: Food Economy: Current Coffee Market Structure, 2003

These specialty coffee shops have encouraged premium coffee consumption and increased interest in fresh coffee. In addition to specialty coffee shops, imported coffee beans are used at most high-end hotels and restaurants.

SECTION III. COSTS AND PRICES

Retail Prices – Instant Coffee

Company	Brand	Weight	Retail Price (Korean Won)	Approximate U.S. Dollar Value
Dongsuh	Maxim	100 grams	3,990	\$3.44
Nestle Korea	Taster's Choice	100 grams	3,990	\$3.44
Dongsuh	Maxwell House	500 grams	5,590	\$4.82
Nestlé Korea	Nescafe	500 grams	5,350	\$4.62
Daesang Group	Rosebud	240 grams	2,600	\$2.24
Dongwon	Dongwon Hazelnut	50 grams	3,280	\$2.83
Dongsuh	Maxim Mochagold	300 grams	7,900	\$6.82

Tariff Rates

Import Tariffs on CIF value:

Green coffee beans (H.S. Code: 0901.10.0000) = 2 %

Roasted coffee beans (H.S. Code: 0901.21.0000 and 0901.22.0000) = 8%

Instant coffee (H.S. Code: 2101.12.1000) = 8 %

A 10 percent value added tax (VAT) is applied to all coffee and coffee products after the tariff has been applied.

SECTION IV. MARKET ACCESS

Labeling Requirements

Imported coffee is required by law to have a Korean language label. Korean language stickers may be applied in lieu of a Korean language label. The sticker should not be easily removable and should not cover the original labeling. The principal display panel must contain the product name, product type and content information. If this is not feasible, such information shall be provided in a Korean language sticker using a 12-point or larger font pitch size. The Korean language label should contain the following information:

1. **Product Name:** The label should state the name of the product. The product name should be identical to the product name declared to the licensing/inspection authority.
2. **Product type:** This is mandatory for specially designated products such as coffee.

3. **Manufacturing company of origin and address**
4. **Manufacturing date, month and year**
5. **Importer's name and address, and the address where products may be returned or exchanged in the event of defects.**
6. **Importers' business license number**
7. **Seller's name, address and phone number**
8. **Shelf life**
9. **Weight of product**
10. **Ingredient(s) or raw material(s) and a percent content of the ingredient(s):**
The name of the major ingredient must be included on the label as well as the names of at least the next four principle ingredients. These should be listed with the highest percentage first followed by the others. Artificially added purified water does not count as one of the five major ingredients.
11. **Nutrients:** Only special nutritional foods, health supplementary foods, products wishing to carry nutritional labels and products wishing to carry a nutrient emphasis mark are subject to nutritional labeling.
12. **Other items designated by the detailed labeling standards for food et al.:**
This includes cautions and standards for use or preservation (e.g., drained weight for canned products, radiation-processed products, etc.).
13. **Country of origin labeling** is required on food products.
14. **Packaging material**

SECTION V. KEY CONTACTS and FURTHER INFORMATION

U.S. Agricultural Trade Office

Korean mailing Address: Rm.303, Leema Bldg, 146-1, Susong-dong, Chongro-ku, Seoul 110-755, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-ATO, APO, AP 96205-5550

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E-mail: atoseoul@usda.gov

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The best method for new-to-market exporters to enter the Korean market is to first find a solid importer, agent or distributor for their product. Currently, the retail industry does very little direct importing, although this may change in the future. The US Agricultural Trade Office in Seoul sponsors an **annual trade-only food show, Food and Hotel Korea (FHK)**, that provides opportunities for U.S. suppliers to meet the Korean trade. FHK2005 will take place March 16-18, 2005 at the COEX Exhibition Hall in Seoul, Korea. For more information about FHK, please contact Mr. OH, Sang Yong via email: Sangyong.oh@usda.gov.

For more information on how you can register for USDA/FAS's Supplier List:

The United States Department of Agriculture's Foreign Agricultural Service (USDA/FAS) offers information and services that can be beneficial to both new and experienced exporters. For example, the U.S. Suppliers Service is a searchable database of over 5,000 U.S. exporters and their products, which is used by USDA/FAS to help facilitate connecting potential buyers with U.S. suppliers. This database is used by more than 85 USDA FAS Overseas offices, such as the ATO in Seoul, Korea to help export agents, trading companies, importers and foreign market buyers locate U.S. suppliers. It is also used to recruit U.S. exporters to participate in market development activities sponsored by USDA and federal export programs.

You can register online for this service at

<http://www.fas.usda.gov/agexport/exporter.html>

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